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Brazil

Oilseeds and Products Annual

Planted Area to Hit Record for Ninth Consecutive Year

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Report Highlights:

Post forecasts 2018/19 soybean production at 115 million metric tons (mmt), the second largest crop on record. The 2018/19 planted area is forecast to increase to a record of 35.8 million hectares due to higher prices, higher expected demand by Chinese buyers, and an increase in domestic consumption. Exports for the 2018/19 Marketing Year are forecast at 67 mmt and soybeans destined for processing will reach a record of 44 mmt due to the economic recovery and new biodiesel blending mandate.

SOYBEAN PRODUCTION

2018/2019 Outlook:

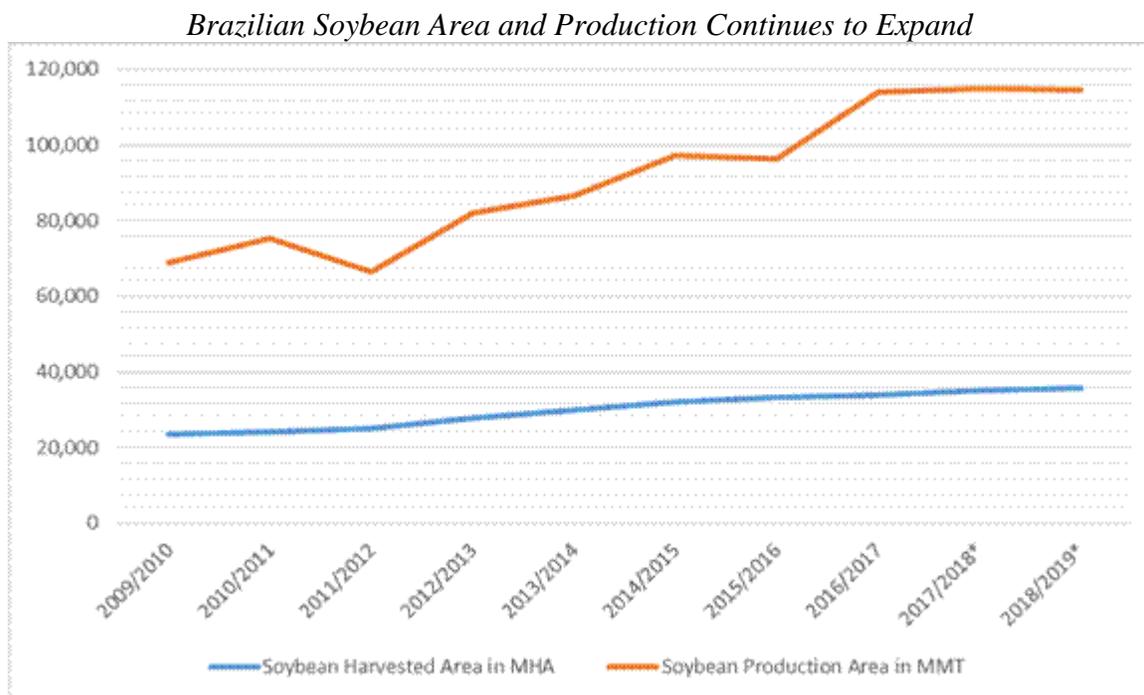
Brazil to Plant Record Area for Ninth Consecutive Year

Post forecasts 2018/19 soybean planted area to increase by two percent, to 35.8 million hectares (ha). The increase in area for the 2018/19 crop is due to expectation of higher prices, higher expected demand by Chinese buyers, and an increase of domestic consumption.

Production is forecast to reach 115 million metric tons (mmt), the second largest crop on record. Despite the record planted area, production is forecast slightly lower compared to the previous year based on yields trend. Productivity during the 2017/18 and 2016/17 seasons were way above trend because of ideal weather conditions throughout Brazil and excellent performance by new technologies in the market.

Production costs are expected to be slightly higher compared to the previous season because of higher costs of pesticides and fertilizers. However, demand for these products will increase because of higher planting perspectives. It is forecast that fertilizer demand will increase by almost 2 percent to 35 mmt in 2018.

Graph 1.



Source: USDA PSD

*2017/18 and 2018/19 are FAS/Brasilia Estimates.

2017/2018 Progress:

Soybean Crop Estimated at 115.5 Million Metric Tons

Post increased its estimate for Brazil's 2017/18 soybean production to a record 115.5 mmt because of excellent yields in almost all producing states and excellent weather throughout the growing regions. The plated area, 35 million ha, is based on the latest estimates by the Brazilian Food Supply Company (CONAB). The growth in area for the 2017/18 season took place in all the regions in Brazil.

Post estimates national yields at 3.30 metric tons per ha despite delays in the planting season due to heavy rains in September and early October, specifically in Mato Grosso. The southern region of Rio Grande do Sul did suffer from erratic weather, which affected the productivity of the state by about eight percent. However, in general Brazil is still estimated to have its second highest yield average on record.

SOYBEAN CONSUMPTION

2018/2019 Outlook:

Post forecasts 44 mmt of soybeans destined for processing in 2018/19 Marketing Year (MY). The increase is a result of the continuation of the economic recovery in Brazil as well as export demand.

Brazil is also considering a higher blending biodiesel mandate in 2019. The National Committee of Energy Policies is currently conducting tests to see if a blending mandate can increase to 15 percent (B15). There is no timeline as to when the results will be presented, but based on the Brazilian government's commitments to increase the use of renewable fuels; the sector is pressing for a decision next year.

Brazil has an estimated crushing capacity of 62 mmt, of which 70 percent of it is expected to be utilized next year. As a result, no new investments on crushing facilities are expected in Brazil in the short term.

2017/2018 Forecast:

Post forecasts 43.5 mmt of soybeans destined for processing in the 2017/18 MY. The forecast is higher compared to 2016/17 MY as a result of the implementation of a new biodiesel mandate of 10 percent on March 1st, 2018 and an economic recovery in Brazil. Gross Domestic Product in Brazil is forecast to reach 3 percent in 2018, which will have an impact on demand for biodiesel as well as soybean meal. Higher oil and meal exports are expected to support the higher crushing number because of the lower soybean crop expected in Argentina.

SOYBEAN TRADE

EXPORTS

2018/2019 Outlook:

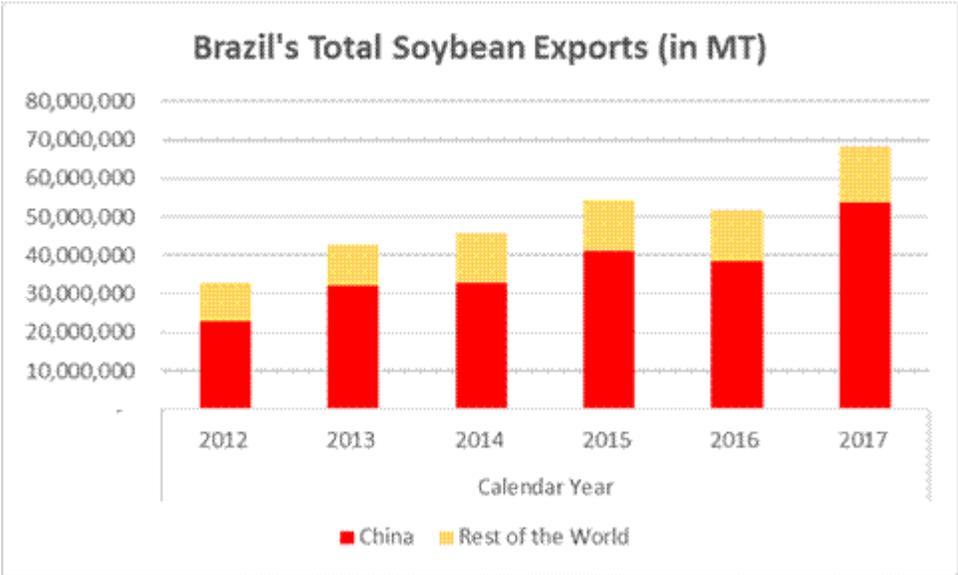
Soybean exports for MY 2018/19 (February 2019 to January 2020) are forecast at 67 mmt. FAS/Brasilia expects strong demand by China, Brazil’s main buyer. The export forecast is slightly lower compared to the previous year due to lower exportable supplies because of higher domestic consumption.

Expectations of a weaker Brazilian Real later in 2018 is also keeping exporters optimistic about next year as it could translate to improved domestic prices. The current exchange rate forecast for the end of 2018 is 3.3 Brazilian Real/USD, which is about the same as 2017. However, due to the open race for the presidency unfolding over the next few months, some exchange-rate volatility will be inevitable. The presidential elections are expected to take place in October 2018.

2017/2018 Export Forecast:

Total soybean exports in MY 2017/18 (February 2018 to January 2019) are forecast at a record 69 mmt. The record crop in 2017/18 increased the amount of exportable supplies. As a result, Brazil is heavily competing with U.S. soybeans and is expected to continue to take away market share from the United States in 2018.

Graph 2.

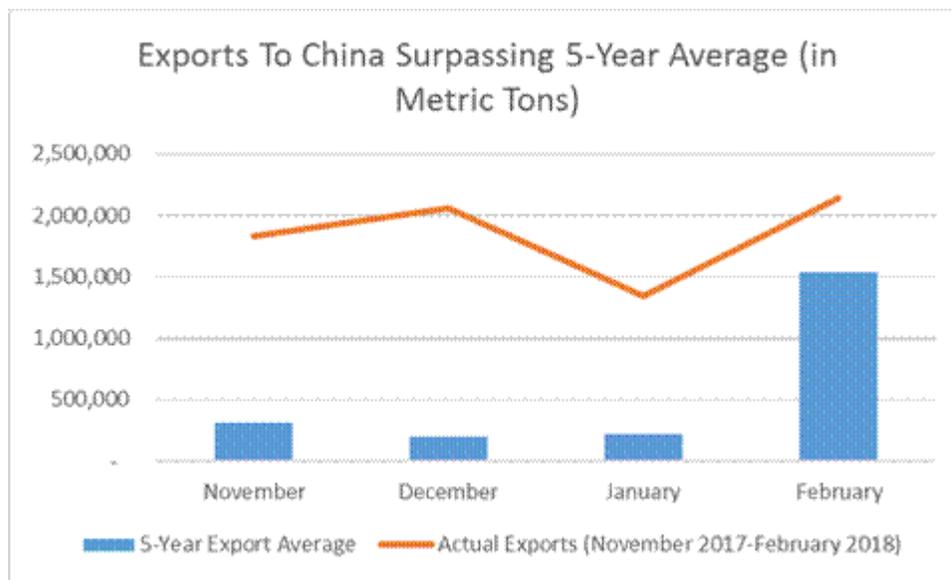


Source: Global Trade Atlas

The higher protein levels of Brazilian soybeans, the additional Chinese requirements on foreign matter on U.S. soybeans, and the current trade environment, are expected to help Brazil support higher exports to the Chinese market. Exports to China are on pace to hit its highest levels yet. The 5-year export average for December (2012-2016) to China is 199,000 metric tons (mt). In December 2017 alone, Brazil exported two (2) mmt to China. For January, the 5-year average (2013-2017) is 215,000 mt but Brazil exported about 1.3 mmt to China in January 2018. This pace is expected to continue in 2018 due to the Brazilian bumper crop and Chinese demand.

Soybean exports would be somewhat limited (regardless of supply) due to competition with corn at the Brazilian ports starting in July. However, increased capacity, especially in the Northern Arc, has been expanding and supporting the high amount of exports.

Graph 3.

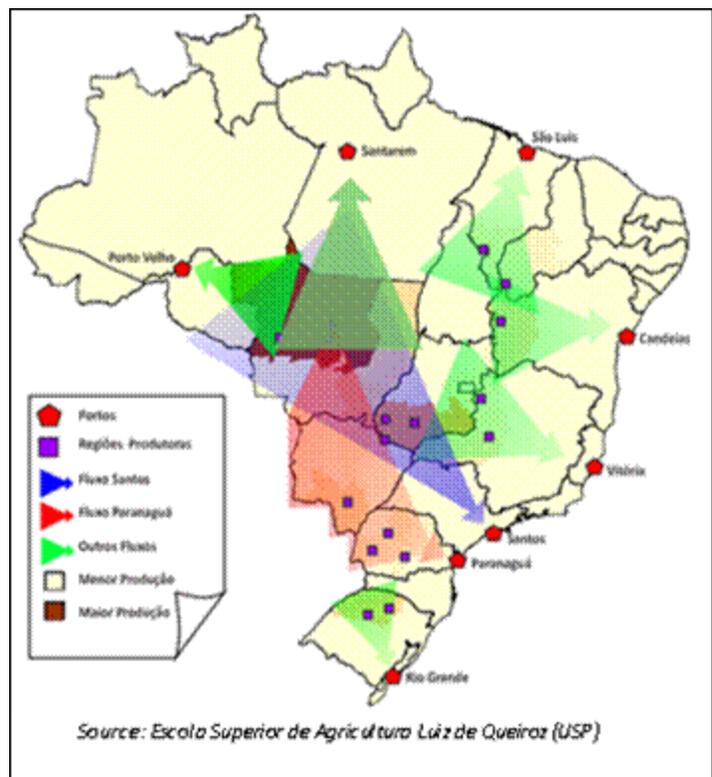


Source: Global Trade Atlas

New Export Routes Make Brazilian Exporters More Competitive:

New export routes from Miritituba to Barcarena and Santarem added a new northern gateway for soybeans (and corn) exports from North Mato Grosso (MT) to China, Europe, the Middle East, and Mexico. These new export routes have shifted the transportation dynamics in Brazil.

For 2018, about 25 percent of soybean exports will leave out of these northern ports. Ports in the northern part of Brazil have increased competition and created new opportunities for farmers in the Center-West and Northeastern regions. In addition, according to the Brazilian Agricultural Research Service (EMBRAPA), 47 percent of the 2017/18 soybean (and corn) crop, will be transported by railroads mainly to the port of Santos and Sao Louis, against 42 percent by trucks, and 11 percent by barges.



Despite improvement in the use of railroads and waterways, there are still major infrastructure constraints affecting the farm sector. Some examples are the delays on government concessions to the private sector, the completion of the main road BR 163, and the uncertainty about the approval of the “Ferrogrão” project.

The “Ferrogrão” is a major railroad project from northern Mato Grosso to Miritituba in the state of Pará valued at R\$ 12.7 billion (nearly US\$ 4 billion). Proponents of this project estimate cargo via this railroad to increase to 16 mmt by 2030. This project is currently under regulatory review by several regulatory agencies and approval is not expected for several years.

Table 1.*Brazil Soybean Marketing Year Exports (in MT)*

Brazil Export Statistics						
Commodity: 1201, Soybeans, Whether Or Not Broken in Metric Tons						
Marketing Year						
Partner Country	Quantity			% Share		
	2014/15	2015/16	2016/17	2014/15	2015/16	2016/17
World	54,633,334	52,099,270	68,806,331	100.00	100.00	100.00
China	41,239,344	38,995,388	54,393,430	75.48	74.85	79.05
Spain	2,376,257	1,621,691	2,043,631	4.35	3.11	2.97
Netherlands	1,496,072	1,490,261	1,652,488	2.74	2.86	2.40
Thailand	1,733,596	1,553,300	1,571,805	3.17	2.98	2.28
Iran	551,592	1,182,706	1,305,889	1.01	2.27	1.90
Russia	527,033	1,044,454	1,062,102	0.96	2.00	1.54
Taiwan	1,008,382	875,521	1,029,168	1.85	1.68	1.50
Pakistan	125,988	476,428	955,601	0.23	0.91	1.39
Vietnam	686,970	320,864	614,842	1.26	0.62	0.89
United Kingdom	370,989	450,992	586,287	0.68	0.87	0.85

Source: Global Trade Atlas

*Marketing Year: For 2016/17 runs from February 2017 to January 2018

IMPORTS

For MY 2018/19, post forecasts imports to decrease to 175,000 metric tons, mainly from Paraguay. For MY 2017/18, imports are forecast at 200,000 metric tons. Abundant domestic supplies as a result of back to back bumper crops and a lower crop in Paraguay this year, will reduce imports. The small amount of imports are mainly coming from Paraguay, Mercosur member country that is able to export to Brazil duty-free. This small amount of imports is helping some crushers in Paraná and Mato Grosso do Sul avoid the Circulation of Goods and Services Tax (ICMS) incurred by cross-state trade.

Table 2.*Brazil Soybean Marketing Year Imports (in MT)*

Brazil Import Statistics						
Commodity: 1201, Soybeans, Whether Or Not Broken in Metric Tons						
Marketing Year						
Partner Country	Quantity			% Share		
	2014/15	2015/16	2016/17	2014/15	2015/16	2016/17
World	329,204	361,970	266,682	100.00	100.00	100.00
Paraguay	328,154	361,296	259,181	99.68	99.81	97.19
Uruguay	-	-	7,497	0.00	0.00	2.81
Argentina	1,050	671	4	0.32	0.19	0.00

Source: Global Trade Atlas

*Marketing Year: For 2016/17 runs from February 2017 to January 2018

STOCKS AND DOMESTIC SOYBEAN PRICES

The expectation for prices in 2018 was to stay at similar levels as prices in 2017; however, the current drought situation in Argentina is already pushing prices up. For March 2018, prices averaged the highest level since December 2016.

In 2017, producers experienced a two percent decline on prices after the relative high domestic prices in 2016 due to the drought that heavily impacted the 2015/16 crop.

Due to the high demand of Brazilian soybeans, both domestically and internationally, Brazil is forecast to bring down its ending stocks to less than one million metric tons in the MY2017/18. This could create more upward pressure on prices later in the year, which will also support a higher planted area 2018/19.

Table 3: Average Monthly Soybean Prices

(Prices* in R\$ per 60 kg)

	2014	2015	2016	2017	2016/17 % Change
January	67.43	59.29	78.46	71.57	-9%
February	66.87	60.20	73.32	68.77	-6%
March	68.78	64.35	69.95	65.06	-7%
April	67.89	63.00	74.12	61.15	-17%
May	67.81	62.09	82.28	64.06	-22%
June	67.54	62.96	90.59	66.58	-26%
July	63.72	67.83	82.83	66.23	-20%
August	63.45	72.17	77.57	63.86	-18%
September	58.94	76.62	76.13	64.99	-15%
October	59.58	78.13	73.96	66.47	-10%
November	63.01	75.48	74.72	69.03	-8%
December	62.42	77.07	75.06	70.02	-7%

Source: Center for Advanced Studies in Applied Economics (CEPEA)

*Average monthly price in the state of Paraná - wholesale level; export type, cash prices, no ICMS tax included.

*Average R\$/US\$ as of March 2018 – R\$3.22/US\$

MEAL SECTION

Post forecasts soybean meal production for 2018/19 MY at 34.1 mmt as a result of higher export and domestic demand. For the current 2017/18 MY, post forecasts soybean meal production at 33.7 mmt. This increase is a result of higher export demand due to the lower competition by Argentina because of the drought. In addition, higher expected crushing rates to meet biodiesel mandates will support higher production.

Total domestic consumption of soybean meal in MY 2018/19 is forecast at 18.5 mmt. For MY 2017/18, domestic consumption is forecast at 18 mmt. Post forecasts consumption to increase mainly due to economic recovery, which is supporting higher domestic consumption of meat. Domestically, Brazil's feed sector continues to use soybean meal as the second most important ingredient for animal feeding.

Exports for the MY 2018/19 are forecast at 15 mmt, mainly to markets in Asia and the European Union. The export forecast is lower compared to the MY 2017/18 with the expectation that Argentina will recover and come back into the market.

MY 2017/18 exports are forecast at 16.5 mmt, close to 20 percent higher compared to the previous season. The increase is completely due to the export opportunities that became available as a result of the drought in Argentina.

Table 4: Brazil Exports Statistics for Soybean Meal (in MT)

Brazil Export Statistics						
Commodity: Soybean meal, (2017)						
Marketing Year (in Metric Tons)						
Partner Country	Quantity			% Share		
	2014/15	2015/16	2016/17	2014/15	2015/16	2016/17
World	15,105,539	14,650,608	13,913,362	100.00	100.00	100.00
Netherlands	3,203,479	2,861,165	2,524,153	21.21	19.53	18.14
Thailand	1,301,614	1,490,057	1,893,408	8.62	10.17	13.61
France	1,839,099	1,713,072	1,605,702	12.17	11.69	11.54
Korea South	1,070,605	1,562,769	1,545,704	7.09	10.67	11.11
Indonesia	1,991,428	1,465,265	1,358,114	13.18	10.00	9.76
Germany	1,484,005	1,369,762	1,138,568	9.82	9.35	8.18
Slovenia	758,689	837,501	982,396	5.02	5.72	7.06
Vietnam	594,974	256,804	397,788	3.94	1.75	2.86
Iran	434,170	758,614	363,524	2.87	5.18	2.61
Romania	259,814	122,783	303,859	1.72	0.84	2.18

Source: Global Trade Atlas

*Marketing Year: For 2016/17 (February 2017 to January 2018)

SOYBEAN OIL SECTION

Post forecasts 2018/19 MY soybean oil production at a record 8.45 mmt, an increase from the previous year. The higher production is due to the higher biodiesel mandate to B10 as well as a recovery in the domestic economy.

Engine tests are expected to be completed by January 2019 for a potential national biodiesel mandate increase from B10 to B15. According to the current legislation, the National Energy Policy Council may stipulate increases in the mandatory biodiesel mix up to B15, but the government will still set the actual implementation. The use of higher mixtures up to B20 or B30, on a voluntary basis, is already permitted.

For 2017/18 MY, post forecasts production at 8.35 mmt because of the current B10 mandate. Brazil's nationwide biodiesel mandate increased from 8 to 10 percent on March 1. The National Energy Policy Council approved the increase one year ahead of schedule.

It is expected that biodiesel demand in Brazil in 2018 will increase by 1 billion liters (more than 264 million gallons) due to the economic recovery expected this year. Estimated total biodiesel consumption in 2018 can reach 5.3 billion liters (1.4 billion gallons), according to the Ministry of Mines and Energy.

STATISTICS

Oilseed, Soybean (Local)	2016/2017		2017/2018		2018/2019	
Market Begin Year	Feb 2017		Feb 2018		Feb 2019	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	34000	34000	35000	35000	0	35800
Area Harvested	33900	33900	35000	35000	0	35800
Beginning Stocks	2230	2230	1075	1075	0	775
Production	114100	114100	113000	115500	0	115000
MY Imports	253	253	200	200	0	175
Total Supply	116583	116583	114275	116775	0	115950
MY Exports	68806	68806	66650	69000	0	67000
Crush	43300	43300	42800	43500	0	44000
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	3402	3402	3500	3500	0	3500
Total Dom. Cons.	46702	46702	46300	47000	0	47500
Ending Stocks	1075	1075	1325	775	0	1450
Total Distribution	116583	116583	114275	116775	0	115950
Yield	3.3658	3.3658	3.2286	3.3	0	3.2123
(1000 HA) ,(1000 MT) ,(MT/HA)						

Meal, Soybean (Local)	2016/2017		2017/2018		2018/2019	
Market Begin Year	Feb 2017		Feb 2018		Feb 2019	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	43300	43300	42800	43500	0	44000
Extr. Rate, 999.9999	0.7741	0.7741	0.7745	0.7747	0	0.775
Beginning Stocks	3541	3541	5420	5420	0	4650
Production	33520	33520	33150	33700	0	34100
MY Imports	35	35	30	30	0	30
Total Supply	37096	37096	38600	39150	0	38780
MY Exports	13915	13915	15350	16500	0	15000
Industrial Dom. Cons.	0	0	0	0	0	0
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	17761	17761	18100	18000	0	18500
Total Dom. Cons.	17761	17761	18100	18000	0	18500
Ending Stocks	5420	5420	5150	4650	0	5280
Total Distribution	37096	37096	38600	39150	0	38780
(1000 MT) ,(PERCENT)						

Oil, Soybean (Local)	2016/2017		2017/2018		2018/2019	
Market Begin Year	Feb 2017		Feb 2018		Feb 2019	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	43300	43300	42800	43500	0	44000
Extr. Rate, 999.9999	0.1919	0.1919	0.1916	0.192	0	0.192
Beginning Stocks	506	506	651	651	0	426
Production	8310	8310	8200	8350	0	8450
MY Imports	60	60	60	50	0	50
Total Supply	8876	8876	8911	9051	0	8926
MY Exports	1325	1325	1475	1200	0	1200
Industrial Dom. Cons.	3200	3200	3200	3700	0	3725
Food Use Dom. Cons.	3700	3700	3730	3725	0	3750
Feed Waste Dom. Cons.	0	0	0	0	0	0
Total Dom. Cons.	6900	6900	6930	7425	0	7475
Ending Stocks	651	651	506	426	0	251
Total Distribution	8876	8876	8911	9051	0	8926
(1000 MT) ,(PERCENT)						